

Message Text

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S E C R E T JAKARTA 4825

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SUBJ: SHULTZ VISIT:MEETING WITH PRESIDENT SUHARTO

PASS DEPT OF TREASURY

PASS EXIM FOR PRESIDENT CASEY

1. SUMMARY: IN MEETING WITH SECRETARY SHULTZ APRIL 22 PRESIDENT SUHARTO REITERATED CONTINUING INDONESIAN NEED FOR ECONOMIC ASSISTANCE. SECRETARY SPOKE OF PRESIDENT NIXON'S INTEREST IN INDONESIA AND DESIRE OF US TO CONTINUE TO HELP. HE OUTLINED CONGRESSIONAL PROBLEMS AND SUGGESTED EXIM AS POSSIBLE SOURCE OF CONTINUING FINANCIAL ASSISTANCE. HE SUGGESTED EXIM WILLINGNESS TO BE ACTIVE COULD BE HELPED BY INDONESIAN GESTURE TOWARD PAST DEBTS. END SUMMARY.

2. IN FASHION NOW COMMON TO MEETINGS WITH US OFFICIALS, PRESIDENT SUHARTO IN MEETING WITH SECRETARY SHULTZ APRIL 22 SPOKE OF IMPORTANCE HE ATTACHED TO NEW FIVE-YEAR PLAN. STATING THAT FIRST FIVE-YEAR PLAN (REPELITA I) HAD OBTAINED ITS OBJECTIVES AND PUT INDONESIA IN STRONG POSITION TO DEVELOP, PRESIDENT EMPHASIZED IMPORTANCE OF AID FROM FRIENDLY COUNTRIES IN IGGI AND NEED TO CONTINUE SUCH AID IN ORDER TO ACCELERATE DEVELOPMENT EFFORTS IN PRESENT FAVORABLE ATMOSPHERE.

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3. PRESIDENT SAID INDONESIA BOTH SUFFERED FROM AND BENEFITED FROM ENERGY CRISIS AND WAS ALSO AFFECTED BY MONETARY AND FOOD CRISIS. EVEN THOUGH PETROLUEM PRODUCTION AND REVENUE HAS INCREASED, NEITHER PRODUCTION NOR REVENUE LARGE IN COMPARISON TO POPULATION AND INCREASE IN PRICES OF IMPORTS HAVE TAKEN AWAY FROM NEW REVENUES. INDONESIA NEEDS, UNDER SUCH CIRCUMSTANCES, TO ACCELERATE EFFORTS AND IT MAY BE FIVE TO TEN YEARS BEFORE INDONESIA CAN TRULY STAND ON ITS OWN FEET.

4. TURNING TO US ROLE, PRESIDENT SAID HE UNDERSTOOD US DOMESTIC DIFFICULTIES WITH CONTINUED AID BUT WAS CONCERNED THAT CHANGE IN AMOUNT AND COMPOSITION OF US AID MIGHT LEAD THE DONORS TO TAKE SIMILAR ACTION. HE ASKED THAT HIS VIEWS BE CONVEYED TO PRESIDENT NIXON AND THAT INDONESIA CONTINUE TO BE GIVEN A CHANCE TO ACCELERATE DEVELOPMENT EFFORTS. HE MENTIONED PARTICULARLY NEED FOR FERTILIZER, CEMENT, CHEAP HOUSING, POPULATION CONTROL AND HELP IN TRANS-MIGRATION.

5. IN RESPONSE SECRETARY SHULTZ CONVEYED GREETINGS FROM PRESIDENT NIXON AND REITERATED PRESIDENT'S INTEREST IN INDONESIA AND PROGRESS IN INDONESIA'S DEVELOPMENT. US UNDERSTANDS THAT INDONESIA, DESPITE INCREASE IN REVENUES, HAS SERIOUS PROBLEMS OF POVERTY, POPULATION AND OTHER ASPECTS OF DEVELOPMENT AND IS NOT OUT OF CLASS OF COUNTRIES DESERVING HELP FROM OTHERS.

6. SECRETARY SAID HE WISHED CONVEY VIEW OF SITUATION IN US AND SUGGESTION OF HOW US AND INDONESIA MIGHT WORK TOGETHER TO MAINTAIN MOMENTUM OF INDONESIA'S DEVELOPMENT.

7. OIL EMBARGO AND OIL PRICE INCREASE HIT US HARD. THERE WAS FIRST QUARTER DECLINE IN REAL OUTPUT IN US OF 6 PERCENT BASED ON ANNUAL RATE. AT SAME TIME, ACTION OF THOSE NATIONS WHICH DID NOT EMBARGO US WAS
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NOTED AND APPRECIATED. RELIABILITY OF SUPPLIERS HAS BECOME EVER MORE IMPORTANT.

8. DURING OIL EMBARGO PERIOD FOURTH IDA REPLENISHMENT WAS VOTED DOWN IN HOUSE OF REPRESENTATIVES. US PEOPLE COULD FEEL DECLINE AND WERE CONCERNED AND REACTED AGAINST FOREIGN ASSISTANCE. SECRETARY SAID THE PRESIDENT DID NOT INTEND TO LEAVE MATTER THERE.

ECONOMY HAS NOW RIGHTED ITSELF AND SHOULD AS YEAR GOES ON RESUME REAL GROWTH. IDA REPLENISHMENT NOW BEFORE SENATE AND HE IS HOPEFUL THAT HOUSE ACTION CAN BE REVERSED. HE WISHED EMPHASIZE THAT POLITICAL DIFFICULTIES REAL AND REVERSAL WILL REQUIRE MAJOR EFFORT.

9. SECRETARY SAID HE FULLY RECOGNIZES THAT SUDDEN INDONESIAN WEALTH DOES NOT CHANGE BASIC PROBLEM ALTHOUGH IT DOES GIVE GOI SUBSTANTIAL SUM TO DO SOMETHING WITH. SUCH FUNDS CANNOT BE INVESTED AT HOME WITHOUT AGGRAVATING INFLATION. THERE IS, HOWEVER, MEANS BY WHICH FUNDS AND OPPORTUNITIES CAN BE PUT TOGETHER THROUGH USE AVAILABLE LENDING INSTITUTIONS. EXIM BANK ONE SUCH INSTITUTION. PRIOR HIS DEPARTURE FROM WASHINGTON SECRETARY TALKED WITH PRESIDENT CASEY OF BANK WHO HAS NOW ADVISED HIM HE IS PREPARED TO COME TO INDONESIA IN JULY WITH MISSION TO DISCUSS BANK'S RELATIONSHIP WITH INDONESIA. ONE ASPECT OF PROBLEM RELATED TO PAST RESCHEDULING OF APPROXIMATELY \$300 MILLION IN EXIM BANK EXPOSURE IN INDONESIA. SECRETARY WONDERED WHETHER INDONESIA COULD MAKE MOVE TOWARD REARRANGING RESCHEDULING USING INDONESIA'S SHORT TERM EXCESSES TO PROVIDE SOLID FOUNDATION FOR FUTURE FINANCING. SUCH GESTURE WOULD BE OF GREAT HELP TO EXIM BANK(SUBJECT FURTHER DISCUSSED IN MEETING WITH MINISTER OF FINANCE WARDHANA REPORTED SEPTTEL).

10. PRESIDENT SUHARTO IN RESPONSE SAID HE FULLY REALIZED THAT FURTHER AVAILABILITY OF SOFT LOANS WAS LIMITED. HE WAS GRATEFUL FOR CREDITS FROM SUCH INSTITUTIONS AS EXIMBANK BUT REIMBURSEMENT TIME WAS STILL A PROBLEM. HE NONETHELESS REALIZES INDONESIA NEEDED FIND RESOURCES OF FINANCING THAT WERE LESS
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CONCESSIONAL. SECRETARY SAID HE BELIEVED IT WOULD BE RELATIVELY EASY TO DO THIS. IN HIS BRIEF VISIT TO FETILIZER PROJECT AT PALEMBANG HE WAS IMPRESSED WITH CAPACITY OF INDONESIANS TO ASSUME RESPONSIBILITY FOR MAJOR INDUSTRIAL COMPLEX AND FELT THIS AUGURED WELL FOR PROJECTS COMMERCIALY FEASIBLE AND WORKABLE IN LONG RUN.

11. PRESIDENT COMMENTED THAT FERTILIZER WAS OF MAJOR IMPORTANCE TO INDONESIA AND THAT OBJECTIVE WAS TO MAKE INDONESIA SELF-SUFFICIENT AND POSSIBLY TO EXPORT. THIS COULD BE DONE BUT PROBLEM WAS TO FIND CAPITAL FOR PRODUCTION IN A WAY THAT WOULD NOT BE DISADVANTAGEOUS TO OVERALL ECONOMY.

12. HE CLOSED BY EXPRESSING APPRECIATION FOR CONTINUED
INTEREST OF US AND FOR SECRETARY'S PERSONAL EVALUA-
TION OF SITUATION.
NEWSOM

NOTE BY OC/T: NOT PASSED ABOVE ADDRESSEES.

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